84-1915

No.

Office-Supreme Court, U.S.
FILED
JUN 11 1985
ALEXANDER L. STEVAS,
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

F.E.L. PUBLICATIONS, LTD.,
a corporation,

Petitioner,

v.

CATHOLIC BISHOP OF CHICAGO,
a corporation sole,

Respondent.

PETITION OF F.E.L. PUBLICATIONS, LTD., FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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June 11, 1985

Pandick Midwest, Inc., Chicago • 454-7600

QUESTIONS PRESENTED

1. Is there an *ecclesiastical use* or religious exception or exemption to the statutory damages and infringement provisions of the copyright statutes, limiting recovery to actual damages only in cases involving ecclesiastical or religious use copyright infringers?

2. Is it a manifest abuse of judicial discretion not to award statutory damages in 1909 Copyright Act cases when the stated bases for the exercise of judicial discretion are substantive misstatements about the law and facts of the case?

3. Are individual parishes of a religious 'corporation sole' who actually function as *de facto* independent contracting entities to be considered competent legal persons for the purpose of establishing necessary third parties for a state tortious interference with contract action?

PARTIES TO THE PROCEEDINGS

(a) Petitioner F.E.L. Publications, Ltd., is a corporation, and was plaintiff-appellee in No. 84-2025 and plaintiff-appellant in No. 84-2119 in the court below.

(b) Respondent Catholic Bishop of Chicago, a corporation sole under the laws of Illinois, was defendant-appellant in No. 84-2025 and defendant-appellees in No. 84-2119 in the court below.

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Respondent.

PETITION OF F.E.L. PUBLICATIONS, LTD., FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

Petitioner F.E.L. Publications, Ltd., prays that a writ of certiorari issue to review the opinion of the United States Court of Appeals for the Seventh Circuit entered on January 31, 1985, and Order Denying Petition for Rehearing and Suggestion for Rehearing *en banc* entered on March 13, 1985.

OPINIONS AND JUDGMENTS BELOW

The January 31, 1985, opinion of the Court of Appeals for the Seventh Circuit the subject of this petition is reported at 754 F.2d 216 (7th Cir. 1985), and is set out in the Appendix ("App.") to this petition at page 1a. A Petition for Rehearing and Suggestion for Rehearing *en banc* was timely filed on February 14, 1985, and denied on March 13, 1985, and is set out in the Appendix at page 14a. The decision of Judge Thomas R. McMillen in the United States District Court for the Northern District of Illinois is officially unreported and set out in the Appendix at page 12a. A *per curiam* opinion of the Court of Appeals entered on July 18, 1984, and unrelated to any issue raised in this petition, is reported at 739 F.2d 285 (7th Cir. 1984). The opinion of the Court of Appeals entered on March 25, 1982, remanding this case to the District Court for trial, is unreported, and is set out in the Appendix at page 15a.

JURISDICTION

This petition for writ of certiorari is being docketed in this Court within 90 days from the date of the denial of petitioner's Petition for Rehearing and Suggestion for Rehearing *en banc* (March 13, 1985) (App.14a).

The initial bases for federal court jurisdiction was 28 U.S.C. §§ 1331, 1332 and 1291.

This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1)(1976).

STATUTORY PROVISIONS

Section 101(b) of the 1909 Copyright Act, 17 U.S.C. § 101(b) (1976), provides in pertinent part that any person who infringes a copyrighted work shall:

> . . . [P]ay to the copyright proprietor such damages as the copyright proprietor may have suffered due to the infringement, as well as all the profits which the infringer shall have made from such infringement, and in proving profits the plaintiff shall be required to prove sales only, and the defendant shall be required to prove every element of cost which he claims, *or in lieu of actual damages and profits, such damages as to the court shall appear to be just, and in assessing such damages the court may, in its discretion, allow the amounts as hereinafter stated* . . . (emphasis added).

The second proviso of Section 101(b) of the 1909 Copyright Act, 17 U.S.C. § 101(b)(Second)(1976), provides in part that to compute "in lieu" statutory damages "In the case of any work enumerated in section 5 of this title . . .," the court is to allow "$1 for every infringing copy made or sold by or found in the possession of the infringer or his agents or employees . . ."

Section 5(e) of the 1909 Copyright Act, 17 U.S.C. § 5(e)(1976), provides for a copyright classification for "(e) Musical compositions."

Section 504(c) of the 1976 Copyright Act, 17 U.S.C. § 504(c)(1982) provides in pertinent part that:

> . . . [T]he copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action . . .

The Illinois law establishing the Catholic Bishop of Chicago as a "corporation sole," Private Laws of Illinois, 22nd General Assembly, at 78 (1861), is set out in the Appendix to this petition at page 33a.

STATEMENT OF THE CASE

Much of the history of this case may be found in the Court of Appeals decisions at pages 1a and 15a of the Appendix to this petition.

From the mid-1960's to the institution of this case in 1976, petitioner was the premier innovator and publisher of religious music for the Roman Catholic Church in the United States. This case began in September, 1976, as an action for copyright infringement under the 1909 Copyright Act, 17 U.S.C. § 1 et seq. (1976). When respondent banned petitioner's hundreds of copyrighted works throughout the Roman Catholic Archdiocese of Chicago (including Cook and Lake Counties, Illinois), and sent letters on October 1 and 6, 1976 regarding its actions to Roman Catholic dioceses and archdioceses throughout the United States, petitioner added counts for tortious interference and punitive damages. The ban on the use of petitioner's copyrighted religious music, even including the singing from memory, continues to today, and petitioner's business is a mere fraction of what it was before this case was instituted. The 1981 District Court dismissal of petitioner's complaint on antitrust and other grounds, reported at 506 F.Supp.1127 (N.D.Ill.1981), was reversed and remanded to the District Court by the Court of Appeals for the Seventh Circuit on March 25, 1982 (App. 15a), this Court denying certiorari on October 4, 1982, 103 S.Ct. 131 (1982). The new District Court trial began on April 10, 1984, before Judge Thomas R. McMillen, and on April 19, 1984, the six person jury returned a verdict against respondent on all counts, including $190,400 in actual copyright infringement damages, $1 million on the exemplary damages claim, and $2 million on the tortious interference claim. Petitioner then moved under Rule 59(e) of the Federal Rules of Civil Procedure to alter or amend the judgment by awarding "in lieu" statutory damages in the amount of $1,484,891 under the 1909 Copyright Act, for $1 for each

illegal, infringing copy of petitioner's works found in the possession of respondent and its agents. Judge McMillen exercised his discretion under the 1909 Copyright Act and denied petitioner's Rule 59(e) motion in a decision entered on June 8, 1984 (App.12a). On January 31, 1985, the Court of Appeals for the Seventh Circuit entered its opinion on petitioner's and respondent's cross appeals of Judge McMillen's decision, affirming the actual damages copyright infringement verdict and judgment of $190,400, vacating the jury's award of $2 million in compensatory damages (tortious interference) and $1 million in punitive damages and remanding to the District Court because the jury considered the tortious interference of the respondent with the parishes in the archdiocese, and upheld Judge McMillen's denial of petitioner's Rule 59(e) motion because, *inter alia,* the 1,484,891 illegal copies were used for *ecclesiastical, not commercial purposes* (App.1a, 6a).

Under section 504(c) of the 1976 Copyright Act, 17 U.S.C. § 504(c)(1982), anytime before judgment a copyright owner may elect to recover statutory damages instead of actual damages and profits. Under Section 101(b) of the 1909 Act. 17 U.S.C. § 101(b)(1976), the award of statutory damages was given at the discretion of the trial judge, and copyright infringement plaintiffs were limited at trial to prove their actual damages only and the infringer's profits. Because petitioner's cause of action arose before January 1, 1978, he was obliged to bring his suit under the 1909 Copyright Act, Section 112 of Public Law 94-553, 17 U.S.C., Trans. Supp. Prov., § 112 (1976).

There remains no nationally approved, official Roman Catholic hymnal. In November, 1972, in an attempt to bring order to its marketplace and respond to the open and unabashed copyright infringements of its works, petitioner initiated a licensing policy called the Annual Copy License ("ACL"), which allowed parishes to purchase the right to make unlimited copies from petitioner's printed pages or from user's own purchased master copies of petitioner's more than 1,000 copy-

righted works. This marketing and licensing arrangement, likened by this Court of Appeals to the blanket license scheme approved by this Court in *Broadcast Music, Inc. v. Columbia Broadcast System, Inc.* 441 U.S. 1, 20 (1979) (App.24a), proved to no avail in preventing what had become a pattern of institutionalized copying by the various parishes in the Roman Catholic church. Petitioner's 1976 legal action stemmed the tide of illegal copying, and as one commentator noted some six years after the case began, "The copyright laws exist and the F.E.L. lawsuit has made everybody aware of them," Serritella, Church-State Cases, 27 CATHOLIC LAWYER 205, 207 (1982).

REASONS FOR GRANTING THE WRIT

I. THE COURT OF APPEALS HAS CARVED OUT AN ECCLESIASTICAL AND RELIGIOUS USE EXCEPTION AND EXEMPTION FROM THE 1909 COPYRIGHT ACT, EQUALLY APPLICABLE TO THE NEW 1976 COPYRIGHT ACT, NOT SUPPORTED BY ANY CITATION OF AUTHORITY, AND CONTRARY TO THE INTENTIONS OF CONGRESS.

a. The Ecclesiastical Rather Than The Commercial Use By A Copyright Infringer Precludes The Holder Of A Copyright From Recovering The Profits Of The Infringer, And Limits Recovery In Such Cases To Actual Damages Only.

Section 101(b) of the 1909 Copyright Act, 17 U.S.C. § 101(b,(1976), provides that in lieu of actual damages and the infringer's profits, a copyright owner in an infringement action may recover statutory damages at the court's discretion within the statutory minimum and maximum awards provided for in the statute. When the Court of Appeals below held that "Nor were profits to the Catholic Bishop from the unauthorized copying at issue because F.E.L.'s music was *used for ecclesiasti-*

cal, not commercial, purposes," (emphasis added) (App.6a), it established a new exception and exemption from the infringement and damages sections of the copyright act. And since profits is an element of damages under the new 1976 Copyright Act, 17 U.S.C.§ 504 (1982), the gravaman of this holding has important consequences that warrant review by this Court. If a copyright defendant is permitted to escape liability for profits because the infringed work was used for a ecclesiastical/religious purpose, the users of religious works would have a disincentive to respect the rights of the owners of copyrights in religious works. Such a result was not intended by Congress, *see* the Legislative History of the Copyright Act, 1976 U.S. CODE CONG. & AD. NEWS 5659-5823, and no case has been found even remotely supporting the court's proposition. The copyrights in religious works are no less or more protected than copyrights in musical works generally, *Wihtol v. Crow,* 309 F.2d 777 (8th Cir. 1962), *Costello Pub. Co. v. Rotelle,* 670 F.2d 1035 (D.C. Cir. 1981), and Congress, not the courts, has authority to act to create such an exception and exemption.

II. IT WAS AN ABUSE OF JUDICIAL DISCRETION FOR THE TRIAL JUDGE NOT TO AWARD 1909 COPYRIGHT ACT STATUTORY DAMAGES BASED ON A MISAPPREHENSION OF THE FACTS AND LAW OF THE CASE, AND WHERE NOT TO AWARD STATUTORY DAMAGES WORKED A MISCARRIAGE OF JUSTICE.

a. The District Court and the Court of Appeals Misread the Holding in the *Woolworth* Case To Mean That Resort To 1909 Copyright Act Statutory Damages Was *Only* Available When Actual Damages *And* Profits Are Not Susceptible to Proof.

Professor Kenneth Culp Davis observed that "where law ends, discretion begins, and the exercise of discretion may mean either beneficence or tyranny, either justice or injustice, either

reasonableness or arbitrariness," DISCRETIONARY JUSTICE—A PRELIMINARY INQUIRY 3 (1969). And even with thoughtful analysis, an abuse of judicial discretion may occur when the end result is not just and equitable, and where a decision is based on erroneous conclusions of law and a lack of rational basis upon which the facts of the case may rest, *Deitchman v. E.R. Squibb & Sons, Inc.*, 740 F.2d 556, 563 (7th Cir. 1984). After nine years of litigation with relative success on the merits, this petitioner has been deprived of an equitable result because the trial judge refused to award statutory damages in a case that cried out for such a remedy. It is not quite sufficient for the Court of Appeals, as in this case, to uphold an exercise of judicial discretion on the supposition that "it is *apparent*[?] that the trial judge considered these [various] circumstances in determining that it was *just to allow only actual damages*" (App.6a) (emphasis added).

An example is the lower courts' misreading of the law on statutory damages in copyright infringement suits. This Court in *F.W. Woolworth v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952), instead of holding that resort to the statutory damages remedy was only available when there was no proof of actual damages *and* profits, held in that case that "Lack of adequate proof on *either* element [i.e., actual damages *or* profits] would warrant resort to the statute in the discretion of the court . . ." (emphasis added). Subsequent lower court cases have held that unless both actual damages and the defendant's profits are proved, the court must award statutory damages, *Shapiro, Bernstein & Co. v. 4636 So. Vermont Avenue, Inc.*, 367 F.2d 236 (9th Cir. 1966), *Robert Stigwood Group, Ltd. v. O'Reilly*, 530 F.2d 1096, 1101, n.11 (2d Cir. 1976), *Mills Music, Inc. v. Arizona*, 187 U.S.P.Q.22 (D.D.C.Ariz.1975), *Iowa State Univ. Research Foundation, Inc. v. American Broadcasting Cos.*, 475 F.Supp.78 (S.D.N.Y.1979).

Had petitioner here *not* been able to prove actual damages, the holdings in *Jewell-La Salle Realty Co. v. Buck*, 283 U.S. 202

(1931) and the *Woolworth* case would have mandated statutory damages as the measure of damages. Statutory damages would also be mandated if injury was proved but neither actual damages or profits were shown, *L.A. Watermann Co. v. Dispatch Printing Co.*, 249 U.S. 100 (1919), *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935), or where profits were shown and there was no showing of actual damages, *Toksvig v. Bruce Pub. Co.*, 181 F.2d 664 (7th Cir. 1950), 4 NIMMER ON COPYRIGHT Appendix 16. Petitioner would urge this Court to hold that *Woolworth* also stands for the proposition that if *either actual damages or profits are not susceptible to proof, resort to statutory damages is mandated if to do so would be more just.*

b. It Was Also An Abuse Of Discretion For The Trial Court To Consider The Tortious Interference Punitive Damages Award and Laches In Denying Statutory Damages To Petitioner.

Punitive damages are not compensation for injury, but are in addition to compensation where the offender's conduct is willful and wanton, *Roy Export Company Establishment of Vaduz, Liechtenstein, Black, Inc., A.G. v. Columbia Broadcasting System, Inc.*, 503 F.Supp. 1137, 1153-1154 (S.D.N.Y. 1980), *Huff v. White Motor Corp.*, 609 F.2d 286, 297 (7th Cir. 1979), citing *International Brotherhood of Electrical Workers v. Foust*, 99 S. Ct. 2121 (1979). Nevertheless, because punitive damages and penalties are not available in 1909 Copyright Act cases, 17 U.S.C. § 101(b)(1976), the trial judge abused his discretion by considering the jury's award of punitive damages, based on petitioner's tortious interference claim, as a substitute for adequate compensation on petitioner's copyright infringement claim. The inequitable consequences of the trial judge's abuse of discretion in not awarding statutory damages because of the punitive damages award on the tortious interference claim is compounded by the fact that the Court of Appeals vacated that punitive damages award, thereby effectively eliminating an adequate damages remedy for petitioner.

Both the Court of Appeals (App.7a) and the trial judge (App.13a) used a laches and mitigation of damages theory to justify the fact that discretionary resort to the more equitable copyright statutory damages remedy was not appropriate in this case. The trial judge had previously disposed of respondent's arguments and jury instruction on mitigation of damages and the equitable doctrine of laches, and turned around and based his decision on those very concepts. Not only was this a manifest breach of the judge's discretion, but contrary to all authority regarding mitigation of damages and laches in copyright cases. For except where the entire cause of action is barred by the three year statute of limitation, the cases under the 1909 Copyright Act have uniformly held that the equitable doctrine of laches shall not be applied except where the defendant demonstrates that the supposed delay was prejudicial. And in those cases where the defendant knew, as here, of plaintiff's rights, or was, as here, a deliberate infringer, laches does not apply, *Universal Pictures Co. v. Harold Lloyd Corp.*, 162 F.2d 354 (9th Cir. 1947), *Key West Hand Print Fabrics, Inc. v. Serkin, Inc.*, 244 F. Supp. 287 (S.D. Fla. 1965). Here we do not have "... a copyright owner ... [who] ... deliberately delay[s] his prosecution and thereby speculate[s] without risk with another's money to determine the success of the exploitation ..." *Universal Pictures,* 162 F.2d at 372. Instead, there was a course and pattern by petitioner to inform the respondent of its copyrights, and a course and pattern on the part of respondent to arrogantly and steadfastly ignore the copyright laws and massively violate petitioner's copyrights. Again, this was a manifest abuse of discretion of the trial judge to rely on a laches theory clearly not supported by the law and facts of the case.

III. INDIVIDUAL PARISHES OF A CORPORATION SOLE WHO HOLD THEMSELVES OUT AND ARE SPECIFICALLY PERMITTED BY THE CORPORATION SOLE TO HOLD THEMSELVES OUT AS *DE FACTO* INDEPENDENT CONTRACTING ENTITIES, SHOULD BE ESTOPPED TO DENY THEIR SEPARATE IDENTITY FOR THE PURPOSES OF A TORTIOUS INTERFERENCE OF CONTRACT ACTION.

a. Individual Parishes of Respondent Did In Fact Enter Into Contractual Relations With Petitioner In The Regular Course of Their Secular Business, And Under The Civil And Canon Laws, Are Separate Entities.

During the entire period relevant to this case, each parish that had entered into license contracts with petitioner had done so with the knowledge and consent of the respondent, and independently to the extent that individual parishes in the Archdiocese were permitted to enter into financial transactions for sums of less than $5,000 without seeking the authorization of the respondent's Chancery Office (April 8, 1984 PRETRIAL ORDER Stipulation ¶ 23). Each parish that entered into a contract with petitioner did so only in the name of the individual parish, each parish was licensed separately and pertained only to use at a particular parish and specifically provided that it was not a license for a diocese but only for a specific church, chapel, school, institution, or local chapter of a Roman Catholic church organization. The lower courts in this case ignored the realities of the functional organization of the church, and specifically ignored the fact that the essential element of the *prima facie* case for tortious interference with a prospective advantage is the interference with the relation and not the enforceability of the relation as a contract, *Kemper v. Worchester,* 106 Ill. App. 3d 121, 435 N.E.2d 827 (5th Dist. 1982).

Even though the Catholic Bishop of Chicago is the civil law title for the corporate entity existing by virtue of the state 1861 law establishing the corporate sole (App.33a), that law was meant to facilitate the holding of title to property, not as a shield to insulate the individual churches or the corporation sole from the liabilities for acts having legal significance in the church's dealings in the commercial and secular world.

Because there may be civil law liability for the acts of a religious organization in the regular course of its secular business, does not run counter to this Court's longstanding position of neutrality with respect to the internal polity of church affairs. *Watson v. Jones,* 13 Wall. (80 U.S.) 679 (1872); *Gonzalez v. Roman Catholic Archbishop of Manila,* 280 U.S.1 (1929); *Kedroff v. St. Nicholas Cathedral,* 344 U.S. 94 (1952); *The Serbian Eastern Orthodox Diocese v. Milivojevich,* 426 U.S. 696, 714 (1976); *Stevens v. Roman Catholic Bishop of Fresno,* 49 Cal. App. 3d 877, 123 Cal. Rptr. 171 (1975); *Jones v. Wolf,* 443 U.S. 595 (1979). Here we are not facing a dispute over internal church policies, discipline, organization, or ecclesiastical rule, custom or law, but merely with the civil law consequences of the civil law acts of a religious body, matters clearly within the purview of the civil law courts. *Costello Pub. Co. v. Rotelle,* 670 F.2d 1035 (D.C. Cir. 1981), *Cantwell v. Connecticut,* 310 U.S. 296, 303-304 (1940), *Reynolds v. United States,* 98 U.S. 145, 164 (1879). When a religious organization functions in the civil world, especially with respect to contractual relations entered into in the regular course of civil commerce, the religious organization should likewise be subject to the jurisdiction of the civil law.

The Court of Appeals held that as a matter of law the tortious interference of contract that took place between the respondent and the individual parishes could not give rise to a cause of action since they ". . . are subsumed under the Catholic Bishop" (App. 9a), and ". . . have no individual capacity to sue or be sued" (App. 9a). The court's logic begs the question of

under what circumstances would parishes clothed with the indicia of independence be individually responsible for their acts notwithstanding the supposed unity of corporate identity. Since Illinois law recognizes a tort action for interference with a prospective economic advantage as well as for interference with existing contracts, *Tom Olesker's Exciting World of Fashion, Inc. v. Dun & Bradstreet, Inc.*, 16 Ill. App. 3d 709, 713-714, 306 N.E.2d 549, 553 (1st Dist. 1973), does that mean that in all cases a cause of action under state law for tortious interference would be foreclosed because of a unity of corporate identity as urged by the Court of Appeals? The petitioner would urge this Court to hold that in the case of religious corporations whose main function is property titleholding, that unique corporate form ("corporation sole") should not by operation of law operate as a shield against civil law liability for acts that if carried out by its civil law counterparts would have legal significance.

Even if this Court should hold that the corporation sole form of organization creates a unity of interests and identification that makes the parishes and the corporation sole one and the same entity, there is civil law authority in Illinois holding that under some circumstances the individual parishes may be considered separate legal entities able to sue and be sued. *Czyston v. St. Stanislaus Parish,* 131 Ill. App. 161 (1st Dist. 1907), *Daly v. St. Patrick's Catholic Church,* 97 Ill. 19 (1880), opinion after hearing on remand 116 Ill. 76 (1886), *Stevens v. St. Mary's Training School,* 144 Ill. 336 (1893).

Also under Canon Law, the parishes are considered separate "public juridic persons" with the ability to contract, sue and be sued, *see* A.MAIDA & N. CAFARDI, CHURCH PROPERTY, CHURCH FINANCES, AND CHURCH RELATED CORPORATIONS—A CANON LAW HANDBOOK (1984) (Catholic Health Association of the United States); Hite, Church Law on Property and Contract, 44 JURIST 117 (1984).

CONCLUSION

WHEREFORE, for the reasons stated, petitioner F.E.L. Publications, Ltd., respectfully prays that a writ of certiorari be issued to review the opinion of the United States Court of Appeals for the Seventh Circuit in this case.

Respectfully submitted,

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June 11, 1985

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In the

United States Court of Appeals

For the Seventh Circuit

No. 84-2025

F.E.L. PUBLICATIONS, LTD.,

Plaintiff-Appellee,

v.

CATHOLIC BISHOP OF CHICAGO,

Defendant-Appellant.

and

No. 84-2119

F.E.L. PUBLICATIONS, LTD.,

Plaintiff-Appellant,

v.

CATHOLIC BISHOP OF CHICAGO, et al.,

Defendant-Appellees.

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 76 C 3471—**Thomas R. McMillen**, *Judge.*

ARGUED NOVEMBER 16, 1984—DECIDED JANUARY 31, 1985

Before BAUER and CUDAHY, *Circuit Judges*, and DOYLE, *Senior District Judge.**

BAUER, *Circuit Judge.* Plaintiff F.E.L. Publications, Ltd. (F.E.L.), a publisher of religious music, was awarded $190,400 in actual damages for copyright infringement

* Honorable James E. Doyle, Senior District Judge for the Western District of Wisconsin is sitting by designation.

resulting from the unauthorized use and copying of its hymnals and songsheets by defendant Catholic Bishop of Chicago (Catholic Bishop). Plaintiff appeals this award, challenging the district court's denial of its request for $1.5 million in statutory damages available under the Copyright Act of 1909[1] in lieu of the actual damages awarded by the jury. The jury also found that defendant tortiously interfered with plaintiff's business subsequent to the filing of the copyright infringement claim and awarded plaintiff $2 million in compensatory damages and $1 million in punitive damages. Defendant appeals this award, challenging the district court's denial of its motion for judgment notwithstanding the verdict on the tortious interference claim. We find that the district court properly exercised its discretion in refusing to grant plaintiff statutory damages for the copyright infringement claim, but that it incorrectly allowed the jury to consider defendant's conduct toward the parishes within the Chicago Archdiocese in reaching its verdict on the tortious interference claim.

I. FACTS OF THE CASE

F.E.L. publishes religious music of its own and holds exclusive rights to religious songs from other composers in exchange for royalties on its sales. From the 1960's until 1976, Catholic parishes within the Chicago Archdiocese had used F.E.L.'s hymnals and songsheets. Initially F.E.L. licensed the right to copy its songs at a rate of two cents per copy for the life of the copy. Because of unauthorized copying within the parishes, F.E.L. instituted a new licensing scheme in 1972, the Annual Copying License,

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[1] Act of July 30, 1947, ch. 391, 61 Stat. 652, 661, *repealed by* Pub. L. 94-553, Title I, § 101, Oct. 19, 1976, 90 Stat. 2541 (codified at 17 U.S.C. § 101). Section 112 of Public Law 94-553 provides that all causes of action for copyright infringement arising before January 1, 1978 are to be governed by the Copyright Act of 1909. Accordingly, F.E.L.'s suit is governed by that Act, not the current Title 17.

which allowed parishes to make unlimited copies of F.E.L. songs for a period of one year at a cost of $100, renewable at the end of each year for another $100. F.E.L. also offered the parishes a Prior Copying Release which would excuse past copyright infringement for a single payment of $500. The parishes' response to these offers was less than overwhelming, and, because of continued infringement, F.E.L. filed suit in September, 1976.

At a hearing on September 30, 1976, the district court gave the Catholic Bishop leave to collect all F.E.L. materials in the parishes and deliver them to F.E.L. The Catholic Bishop's Chancery Office then sent two letters to all the parishes in the Chicago Archdiocese directing them to collect all F.E.L. hymnals and songs, both licensed and unlicensed, so that they could be conveyed to F.E.L. The letters further instructed the parishes that F.E.L. material was not to be used in any way until the litigation was completed. Copies of these letters were sent to many of the bishops and archbishops throughout the United States. In response to these actions, F.E.L. amended its complaint to allege tortious interference with its business relationship with the parishes in the Chicago Archdiocese and nationwide.

At trial, the Catholic Bishop admitted liability for copyright infingement. F.E.L. presented evidence regarding the extent of the infringement, and in closing argument requested actual damages based on the licensing scheme it established in 1972. Specifically, F.E.L. argued that if each of the 238 infringing parishes had obtained F.E.L.'s $100 Annual Copying License for each of the three years for which infringement was proved, and had also obtained a $500 Prior Copying Release for all previous unauthorized copying, F.E.L. would have received $190,400.

The jury returned a verdict for F.E.L., awarding the precise amount it had requested. Nonetheless, F.E.L. filed a post-trial motion requesting that the trial court grant the statutory damages provided for under Section 101(b)

of the Copyright Act of 1909 in lieu of the actual damages awarded by the jury, arguing that the jury's award was inadequate. The trial court denied this motion. The jury also returned a verdict for F.E.L. on the tortious interference claims, awarding F.E.L. $3 million in damages. The trial court denied the Catholic Bishop's motion for judgment notwithstanding the verdict on this claim. On appeal, both parties challenge the trial court's denial of their respective motions.

II. THE COPYRIGHT INFRINGEMENT AWARD

F.E.L. claims that the trial judge abused his discretion by refusing to award statutory damages in lieu of the jury's award for actual damages. F.E.L. also asserts that the trial judge improperly considered the punitive damages awarded for its separate tortious interference claim in determining that the copyright infringement award was just, and that this constituted reversible error. Conversely, the Catholic Bishop contends that statutory damages cannot be awarded in this case because F.E.L.'s actual damages were ascertainable. In support of this contention, the Catholic Bishop argues that the statutory damages provision of Section 101(b) is not to be used as a penalty, *see Universal Pictures v. Harold Lloyd Corp.*, 162 F.2d 354, 378 (9th Cir. 1947); *Samnous v. Colonial Press, Inc.*, 126 F.2d 341, 350 (1st Cir. 1942); *Davilla v. Brunswick-Balke Collender Co.*, 94 F.2d 567, 568 (2d Cir.), *cert. denied*, 304 U.S. 572 (1938), and that statutory damages are not available when actual damages can be proved. *See Washington Pub. Co. v. Pearson*, 140 F.2d 465, 466 (2d Cir. 1944); *Doehrer v. Caldwell*, 207 U.S.P.Q. 391, 393 (N.D. Ill. 1980); 4 NIMMER ON COPYRIGHT, Appendix 16 at 16-8.

Under the Copyright Act of 1909, the copyright holder is entitled to an award of both the actual damages suffered due to the infringement and the amount of the infringer's profits. 17 U.S.C. § 101(b) (1976) (repealed 1976); *F.W. Woolworth Co. v. Contemporary Arts, Inc.*, 344

U.S. 228, 230 (1952). Section 101(b) also provides that the trial judge may, "in lieu of actual damages and profits, [allow] such damages as to the court shall appear to be just" within monetary limits established by the statute. The United States Supreme Court has interpreted Section 101(b) as giving the trial judge broad discretion in determining whether it is more just to allow recovery for actual damages and profits, based on the evidence, or to award statutory damages within the limits provided by the statute. *Woolworth*, 344 U.S. at 231-32; *L.A. Westermann Co. v. Dispatch Printing Co.*, 249 U.S. 100, 106 (1919). In making this determination, the trial judge may consider the difficulty or impossibility of proving actual damages, *Woolworth*, 344 U.S. at 233; *Douglas v. Cunningham*, 294 U.S. 207, 209 (1935), the circumstances of the infringement, *Woolworth*, 344 U.S. at 232 (*quoting L.A. Westermann*, 249 U.S. at 106), and the efficacy of the damages as a deterrent to future copyright infringement. *Woolworth*, 344 U.S. at 233.

Woolworth further states that the statute not only "compels restitution of profit and reparation for injury but also is designed to discourage wrongful conduct. The discretion of the trial court is wide enough to permit a resort to statutory damages for such purposes." *Woolworth*, 344 U.S. at 233. Accordingly, the trial judge has discretion to award statutory damages in lieu of or in addition to actual damages for the purpose of deterring future infingement. *See Lottie Joplin Thomas Trust v. Crown Publishers*, 592 F.2d 651, 657 (2d Cir. 1978) (statutory damages and actual damages not mutually exclusive remedies); *Peter Pan Fabrics, Inc. v. Jobela Fabrics, Inc.*, 329 F.2d 194, 196 (2d Cir. 1964) (Section 101(b) allows cummulative, not just alternative, recovery for statutory damages and actual damages).

We find that in this case the trial judge properly exercised his discretion in refusing to award F.E.L. statutory damages in addition to or in lieu of the actual damages awarded. The evidence showed that unauthor-

ized copying occurred in 238 parishes during the three year period for which F.E.L. was allowed to sue under the statute. The trial judge, at F.E.L.'s request, used F.E.L.'s licensing scheme to calculate the actual damage to F.E.L.'s business caused by the illegal copying. The jury awarded F.E.L. the exact amount it requested and the trial judge, in his order denying F.E.L.'s post-trial motion, stated that F.E.L.'s business was "substantially made whole" by the award. R. 329 (Order of June 8, 1984). Thus, this was clearly not a case where the court needed to resort to statutory damages because proof of actual damages was difficult or impossible. *See, e.g., Lottie Joplin*, 592 F.2d at 657; *Peter Pan*, 329 F.2d at 197. Nor were profits to the Catholic Bishop from the unauthorized copying at issue because F.E.L.'s music was used for ecclesiastical, not commercial, purposes.

Moreover, the record contains testimony concerning the circumstances of the infringement, including testimony as to the structure of the Chicago Archdiocese and its business relationship with F.E.L., the way in which the infringement occurred, and the types of people who actually engaged in the infringement. It is apparent that the trial judge considered these circumstances in determining that it was just to allow only actual damages. *See* R. 329 (Order of June 8, 1984, p. 3). We therefore find that the trial judge acted within his discretion in determining that the jury's award was just and that additional, statutory damages were not necessary to deter future copyright infringement. *Cf. Woolworth*, 344 U.S. at 233.

Incongruously, F.E.L.'s dissatisfaction with the amount of the award seems to be based on the trial judge's use of the licensing scheme which F.E.L. proposed as the method to calculate its actual damages. F.E.L. now claims that this method of calculation did not adequately compensate F.E.L. for its losses. F.E.L. argues that it should be granted statutory damages because it would have elected statutory rather than actual damages if it could have sued under the current copyright statute, which allows such election. Further, F.E.L. complains that it was

unable to sue for infringement beyond the three year period allowed by the Copyright Act of 1909, and that this was unfair because infringement occurred over a much longer period of time. We fail to see how the trial judge abused his discretion by calculating F.E.L.'s damages according to the method F.E.L. suggested. Moreover, we are concerned only with what F.E.L. did do at trial, not with what it would have liked to have done but was not permitted to do by the statute, and we therefore find no merit to F.E.L.'s argument that the damages awarded were inadequate.

While complaining that its award was unfairly limited by the Copyright Act's three year statute of limitations, F.E.L. argues that the trial judge improperly considered infringement outside of the three year period for which the statute allows a remedy in denying F.E.L.'s motion for statutory damages. Specifically, F.E.L. argues that the trial judge denied its motion based in part on the fact that F.E.L. did not file suit against the Catholic Bishop for several years after gaining knowledge of the copyright infringement, and that this was an unreasonable delay in bringing suit. We find that the trial judge properly based his decision to deny statutory damages on the evidence and exercised his discretion within the parameters established by *Woolworth*. Moreover, F.E.L.'s delay in filing suit certainly could be characterized as one of the "circumstances of the infringement" referred to in *Woolworth*, 344 U.S. at 232, and we find no authority which states that this is an improper factor to consider.

Finally, it does not appear that the trial judge committed reversible error by improperly considering the punitive damages awarded for F.E.L.'s tortious interference claim in determining that the copyright infringement award was just. F.E.L.'s argument that these damages were improperly considered is based on one sentence in the post-trial order denying its motion for statutory damages. The trial record, however, indicates that the determination was properly based on the factors

discussed above, and the post-trial order itself states that "[F.E.L.] received the award of damages in the amount it claimed and as supported by the evidence. As we recall the evidence, [F.E.L.'s] business will be substantially made whole by the award of $190,400." R. 329 (Order of June 8, 1984, p.3). We therefore find no reversible error or abuse of discretion in the trial judge's refusal to award F.E.L. statutory damages, and we affirm the jury's award of $190,400 for F.E.L.'s copyright infringement claim.

III. THE TORTIOUS INTERFERENCE AWARD

The Catholic Bishop contends that it was legally impossible for it to tortiously interfere with F.E.L.'s business relationship with the Chicago parishes because the Catholic Bishop and the parishes are the same entity, and that therefore it was error for the trial judge to allow the jury to consider the Catholic Bishop's conduct toward the Chicago parishes in reaching its verdict on F.E.L.'s tortious interference claim. The Catholic Bishop also contends that F.E.L. presented insufficient evidence to allow recovery for tortious interference with F.E.L.'s business outside the Chicago Archdiocese. We agree that it was improper for the jury to base any part of its award on the Catholic Bishop's conduct toward the Chicago parishes, but disagree that the evidence was insufficient to allow recovery for tortious interference with F.E.L.'s business outside Chicago.

In order to maintain an action for tortious interference with a business relationship, the plaintiff must establish the existence of a separate and independent business relationship with a third party. *See Hannigan v. Sears, Roebuck & Co.*, 410 F.2d 285 (7th Cir.), *cert. denied*, 396 U.S. 902 (1969); *Republic Gear Co. v. Borg-Warner Corp.*, 406 F.2d 57 (7th Cir.), *cert. denied*, 384 U.S. 1000 (1969). Generally, a party cannot be liable in tort for interfering with its own contract, or even for breaching its own contract. *See Fuller v. Chicago College of Osteopathic Medicine*, 719 F.2d 1326, 1334 (7th Cir. 1983); *DP*

Services, Inc. v. AM Int'l, 508 F. Supp. 162, 167-68 (N.D. Ill. 1981). Thus, the Catholic Bishop and the Chicago parishes would have to be separate and independent entities for F.E.L. to recover for tortious interference within the Chicago Archdiocese.

Pursuant to special legislation enacted by the Illinois General Assembly in 1861, the Catholic Bishop is organized as a "corporation sole" under Illinois law. *See* Private Laws of Illinois, 22nd General Assembly, at 78 (1861); *Galich v. Catholic Bishop of Chicago*, 75 Ill. App. 3d 538, 546 (1st Dist. 1979), *cert. denied*, 445 U.S. 916 (1980). As a "corporation sole," the Catholic Bishop owns all the real and personal property in the Chicago Archdiocese. The parishes themselves have no individual capacity to sue or be sued. *See, e.g., Haymes v. Catholic Bishop of Chicago*, 41 Ill.2d 336, 337 (1968); *Catholic Bishop of Chicago v. Village of Palos Park*, 286 Ill. 400, 401 (1919). In short, the parishes within the Archdiocese are not legal entities separate and independent from the Catholic Bishop, but are subsumed under the Catholic Bishop. *See Galich*, 75 Ill. App. 3d at 546-47.

The evidence presented at trial reflects this unity. Individual priests had limited, authorized power to purchase a license for F.E.L. material, but the licenses purchased were paid for and owned by the Catholic Bishop. F.E.L. does not dispute that its hymnals and songsheets, although purchased by the parishes, were actually owned by the Catholic Bishop. Nor does F.E.L. dispute that the Catholic Bishop and the Chicago parishes are the same entity; to the contrary, the basis of F.E.L.'s copyright infringement claim is that the Catholic Bishop is liable for all the unauthorized copying of F.E.L.'s material by the Chicago parishes. This position cannot be reconciled with F.E.L.'s contention that the parishes are separate and independent from the Catholic Bishop for the purposes of its tortious interference claim. It was therefore improper for the jury to consider the Catholic Bishop's conduct toward its own parishes in determining the merit of

F.E.L.'s tortious interference claim or award any damages to F.E.L. because of that conduct.

F.E.L. contends that, even accepting that they are the same entity, the Catholic Bishop was nonetheless capable of tortiously interfering with its parishes. In support of this contention, F.E.L. cites several cases which hold corporate officers liable in tort for wrongfully inducing the breach of their corporation's contracts. *See Fuller v. Chicago College of Osteopathic Medicine*, 719 F.2d 1326, 1334 (7th Cir. 1983); *Swager v. Couri*, 77 Ill. App. 3d 173 (Dist. 1979); *Worrick v. Flora*, 133 Ill. App. 2d 755, 758 (3d Dist. 1971). No breach of contract has occurred in this case. The purchase of an F.E.L. license did not require the purchasing parish to actually use F.E.L.'s music. Nor was a parish required to renew the license after its expiration. Therefore, the cases cited by F.E.L. do not apply to this case.[2]

F.E.L. also based its tortious interference claim on the Catholic Bishop's conduct involving other Catholic dioceses throughout the nation, and F.E.L. presented evidence that these actions damaged its business relationships with these dioceses. The various Roman Catholic dioceses in the United States function as independent entities. Therefore, this part of F.E.L.'s tortious interference claim is not infirm. We are unable to determine from the record before us, however, what amount of the jury's tortious interference award was impermissibly based on the Catholic Bishop's conduct toward its own parishes and what

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[2] F.E.L. also makes an amorphous public policy argument to support its contention, citing cases concerning corporate criminal conspiracy, *United States v. Consolidated Coal Co.*, 424 F. Supp. 577 (S.D. Ohio 1976), conspiracy to discriminate, *Novotny v. Great American Federal Savings & Loan Ass'n*, 584 F.2d 1235 (3d Cir. 1978), *vacated on other grounds*, 442 U.S. 366 (1979), and conspiracy to violate the Sherman Antitrust Act. *Copperweld Corp. v. Independence Tube Corp.*, ____ U.S. ____, ____ S. Ct. ____, 81 L. Ed. 2d 628 (1984). We fail to see how these cases have any bearing on this matter and will not address them.

amount, if any, was based on its actions involving dioceses outside Chicago. We therefore vacate the jury's award for tortious interference with F.E.L.'s business and remand for proceedings consistent with this opinion.

IV. CONCLUSION

The denial of F.E.L.'s motion for statutory damages was not an abuse of the trial judge's discretion. Therefore, the jury's award of $190,400 for F.E.L.'s copyright infringement claim is affirmed. The jury's award of $2 million in compensatory damages and $1 million in punitive damages for F.E.L.'s tortious interference claim, however, is vacated because the jury reached its verdict after improperly considering the Catholic Bishop's conduct toward its own parishes.

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Clerk of the United States Court of Appeals for the Seventh Circuit

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UNITED STATES DISTRICT COURT

Northern District of Illinois

Eastern Division

F.E.L. PUBLICATIONS, LTD.,
Plaintiff,

v.

CATHOLIC BISHOP OF CHICAGO,
Defendant.

No. 76 C 3471

DECISION

Plaintiff has filed a motion to alter the judgment entered by the jury on its copyright infringement claim from the jury's verdict of $190,400 to $1,484,891. The alternative amount which plaintiff is now seeking is based upon statutory damages of $1.00 per copy for each of the infringing copies which have been stipulated to have been found in defendant's possession and have been taken out of circulation. The motion is based upon Section 25 of the 1909 Copyright Act, 17 U.S.C. § 101(b) (1976). Plaintiff did not sue under the new 1976 Act and therefore must rely upon the discretionary authority contained in § 101(b).

There are several reasons why this motion must be denied, in the exercise of our discretion. In the first place, plaintiff's actual damages can and were subject to proof. Its rather unusual licensing provisions authorized a church to make additional copies of the publications, so that the total amount which would have been received from licensing would have been far less than $1.00 a copy. The words of the Supreme Court in *Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 at 232-33 are appropriate:

> Whether discretionary resort to estimation of statutory damages is just should be determined by taking into account both components and the difficulties in the way of proof of either. In this case the profits realized were established by uncontradicted evidence, but the court was within the bounds of its discretion in concluding that the amount of damage suffered was not computable from the

> testimony. Lack of adequate proof on either element would warrant resort to the statute in the discretion of the court, subject always to the statutory limitations.

The court found that the gross amount of sales which were lost by the plaintiff was not adequate compensation because it also suffered unliquidated damage to its business reputation, loss of customers, and eventual abandonment of the line.

Secondly, plaintiff asserts that it needs the additional compensation in order to pay royalties to its composers. However, there is no evidence in the record concerning the amount of such royalties which are due to be paid, although the evidence does show that the president of the plaintiff, Mr. Fitzgerald, was a principal composer of the songs in question. In any event, there is no reason to believe that the royalties would amount to anything close to $1.00 a copy, and we suspect that the proof would show that they are or at least should have been included in the plaintiff's cost of doing business.

Thirdly, plaintiff had notice of the infringment of its songs for a long period of time before it filed suit, and much of the copying covered by the motion took place before the statute of limitations period. Plaintiff owed a duty to its composers to make a demand for royalties long before the statute of limitations ran and could have mitigated its damages considerably. In a sense, therefore, plaintiff has waived this part of its claim, and at least one of its composers has also.

Plaintiff received the award of damages in the amount it claimed and as supported by the evidence. As we recall the evidence, plaintiff's business will be substantially made whole by the award of $190,400. It will obtain a considerable excess over profits by virtue of the punitive damage award of the jury. Therefore, plaintiff's motion to increase the judgment for infringement to $1,484,891 seeks more than would be equitable and is denied.

ENTER:

THOMAS R. MCMILLEN
JUDGE,
UNITED STATES
DISTRICT COURT

DATED: JUN 08 1984

UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT
CHICAGO, ILLINOIS 60604

March 13, 1985.

Before

Hon. **WILLIAM J. BAUER,** *Circuit Judge*
Hon. **RICHARD D. CUDAHY,** *Circuit Judge*
Hon. **JAMES E. DOYLE,** *Senior District Judge**

No. 84-2025
F.E.L. PUBLICATIONS, LTD.,
Plaintiff-Appellee,

vs.

CATHOLIC BISHOP OF CHICAGO,
Defendant-Appellant.

and

No. 84-2119
F.E.L. PUBLICATIONS, LTD.
Plaintiff-Appellee,

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CATHOLIC BISHOP OF CHICAGO, et al.,
Defendant-Appellees.

Appeals from the United States District Court for the Northern District of Illinois, Eastern Division.

No. 76 C 3471

Thomas R. McMillen, *Judge.*

ORDER

On consideration of the petition for rehearing and suggestion for rehearing *en banc* filed in the above-entitled cause by F.E.L. Publications, Ltd., Plaintiff-Appellee, no judge in active service** has requested a vote thereon, and all of the judges on the original panel have voted to deny a rehearing. Accordingly,

It is ordered that the aforesaid petition for rehearing be, and the same is hereby, DENIED.

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* The Honorable James E. Doyle, Senior Judge of the United States District Court for the Western District of Wisconsin, is sitting by designation.

** The Honorable Walter J. Cummings, Chief Judge, did not participate in consideration of the suggestion for rehearing en banc.

In the

United States Court of Appeals

For the Seventh Circuit

No. 81-1333

F.E.L. PUBLICATIONS, LTD.,

Plaintiff-Appellant,

v.

CATHOLIC BISHOP OF CHICAGO,

Defendant-Appellee.

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division.
No. 76 C 3471—George N. Leighton, *Judge.*

ARGUED NOVEMBER 13, 1981—DECIDED MARCH 25, 1982

Before SWYGERT, *Senior Circuit Judge,* PELL, *Circuit Judge,* and GRANT, *Senior District Judge.**

SWYGERT, *Senior Circuit Judge.* The plaintiff-appellant in this case, F.E.L. Publications, Ltd. ("F.E.L.") is a music publisher who began publishing and marketing hymnals to Chicago's Catholic parishes in 1965. The copyrights for the songs which F.E.L. supplies have been purchased from individual composers who assigned the copyrights in their compositions in exchange for royalties based on sales. The defendant-appellee Catholic Bishop of Chicago ("Bishop") is an Illinois corporation

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* The Honorable Robert A. Grant, United States Senior District Judge for the Northern District of Indiana, is sitting by designation.

and owns all Catholic parish property within the archdiocese of Chicago.

The Roman Catholic Church has never developed a national hymnal and most individual parishes in Chicago generally use a custom-made hymnal. Prior to November 1972, F.E.L. licensed to Catholic parishes the right to copy its songs on a two cents per-song/per-copy basis, for use in these custom-made hymnals. At that time, copyright infringement was a widespread and serious problem in the parishes. F.E.L.'s general knowledge of the occurrence of copyright infringement prompted F.E.L. to institute its Annual Copying License ("ACL") in 1972. The ACL permits parishes to copy one or more of F.E.L.'s songs, currently numbering approximately fourteen hundred, in unlimited quantities for a period of one year. F.E.L. provides a Master Title Index, listing its copyrighted songs, to the licensee for its selection. The license fee is $100 and requires that copies must be destroyed upon termination of the license unless renewed. Renewal of the ACL requires a $100 payment per year.

In addition to the ACL, F.E.L. offers numerous other ways to acquire its songs. These include a "One Time Usage License" which permits a licensee to copy F.E.L. songs for use at a single occasion at two cents per copy per song,[1] printed hymnals and songbooks sold for as low as thirty-nine cents per hymnal and nineteen cents per songbook (if ordered in quantity) and sheet music and congregation cards, containing F.E.L.'s most popular songs. Nevertheless, the ACL is the only license offered to parishes which allows the parishes to use F.E.L. songs in a custom-made hymnal.[2]

When F.E.L. became convinced that the ACL had failed to discourage illegal copying, it filed suit against

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[1] This license requires that all copies must be destroyed after they have been used.

[2] Since 1979 F.E.L. has offered an annual per song license allowing copying in unlimited quantities for one year at a rate of $25.00 for the first song and $15.00 for each additional song. Because this license was only offered after November 1979, it is not pertinent to this lawsuit.

the Bishop in September 1976. The complaint alleged copyright infringement under the 1909 Copyright Act ("the Act"),[3] unfair competition under the Lanham Act,[4] and unfair competition under the common and statutory laws of Illinois. In the copyright claim, F.E.L. alleged that the Bishop, through his agents, copied and published F.E.L. songs without permission from F.E.L. F.E.L. further alleged that the Bishop produced hymnals containing F.E.L. songs and that the hymnals carried a false designation of origin in violation of the Lanham Act.

As a result of an agreement between the parties, thousands of songsheets and "homemade" hymnals were collected from the parishes and impounded by the United States District Court for the Northern District of Illinois. In all, over one and one-half million unauthorized copies of F.E.L. songs were collected from the Bishop.

Upon conclusion of discovery, F.E.L. and the Bishop both filed motions for summary judgment. F.E.L.'s motion was denied and the Bishop's motion was granted. The district court held that:

> (1) F.E.L.'s copyright claim was barred because (a) the ACL was used to illegally extend F.E.L.'s copyrights over exempt performances of the copyrighted music, and (b) the ACL was a tying contract and a per se violation of the Sherman Act;[5]
>
> (2) the Lanham Act claim must be dismissed because it failed to satisfy the jurisdictional element requiring that the offending articles enter into commerce, and the Bishop did not employ a false designation of origin; and

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[3] The 1909 Copyright Act, 17 U.S.C. §§ 1 *et seq.*, has been replaced by the 1976 Copyright Act, 17 U.S.C. §§ 101 *et seq.* Unless otherwise stated, all citations to the Copyright Act refer to the 1909 Act.

[4] 15 U.S.C. § 1125(a).

[5] 15 U.S.C. §§ 1 *et seq.*

(3) the state claims must be dismissed because the district court declined to exercise pendent jurisdiction.

It is our conclusion that the granting of summary judgment for the Bishop was error.

I

F.E.L.'s copyright claim was dismissed on two grounds: copyright misuse and a Sherman Act violation. These two issues will be considered separately.

A.

Does the ACL license not-for-profit performances?

The exclusive rights of a copyright holder include the right to print, publish, and copy a copyrighted work. Also protected is the right to perform a work publicly for profit. 17 U.S.C. § 1. A copyright holder cannot prevent a not-for-profit performance of his work nor can he exact a fee for such performance. 17 U.S.C. § 1(e); *Associated Music Publishers, Inc. v. Debs Memorial Radio Fund, Inc.*, 141 F.2d 852, 854 (2d Cir.), *cert. denied*, 323 U.S. 766 (1944). More specifically, the singing of a hymn at a religious service is a not-for-profit performance and F.E.L. cannot prevent congregations from performing any of its copyrighted works at a service. Nevertheless, F.E.L. can prevent churches from copying or publishing its copyrighted works, even if the churches only intend to use the copies or publications at not-for-profit religious services. If a church distributes copies of a copyrighted song to its members, this amounts to a publication of that work and can only be done with the permission of the copyright owner. *See Macmillan v. King*, 223 F.2d 862, 867 (D.C. D.Mass. 1914); *Tiffany Productions, Inc. v. Dewing*, 50 F.2d 911, 914 (D.C. D.Md. 1931); *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago*, 199 U.S.P.Q. 85 (N.D. Ill. 1978). The right to perform music at not-for-profit religious services contemplates that the musical work is performed from memory or from legal copies. Neither the religious ele-

ment[6] nor the non-profit element of a performance will protect illegal copying or publishing. *Wihtol v. Crow*, 309 F.2d 777 (8th Cir. 1962); *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago, supra*, 199 U.S.P.Q. at 85.

Our resolution of this particular issue requires an examination of the ACL to determine whether it licenses performances or copying and publishing. The pertinent sections of the ACL are:

> 4. PERFORMANCE RIGHTS. F.E.L. grants to USER the right to perform the music and/or text at not-for-profit performances for purposes of worship and/or classroom use (including related C.C.D., Christian Education, and Sunday School classes) at USER's premises identified below at Article 18. All public performances for profit are to be cleared through F.E.L.'s performance rights organization: A.S.C.A.P., One Lincoln Plaza, New York, N.Y. 10023.
>
> 5. MINISTRY EXCEPTION. USER agrees to confine use of the copies to USER's premises as identified below at Article 18, with the occasional exception of homes, lecture rooms, and other places where the agent of USER might need copies in the performance of the agent's ministry, music, or teaching profession in the service of USER. This exception is not intended to be a "free continuing" License for places the agent of USER might visit (other churches, retreat houses, and schools not on contiguous premises) but is designed only for the convenience of the agent of USER at times when the agent is present in the service of USER on premises other than those identified below at Article 18. This is not a License for a group of churches, for a diocese, for conventions, for national, international, or other territorial organizations, etc., but only for a specific church, and/or school, or institution, or local chapter of an organization.
>
> * * *

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[6] *See* 17 U.S.C. § 104.

8. EXPIRATION. Upon the expiration of this License, and its nonrenewal, all rights granted herein shall cease and terminate. If this License is not renewed, then USER agrees to destroy all copies licensed herein and to notify F.E.L. with a signed letter within 10 days after the expiration of this License specifying that copies were destroyed.

* * *

14. COPIES MAY NOT BE SOLD. USER agrees not to sell the copies. Separate charges and licenses are required to permit copies to be sold to the congregation or others when allowed by F.E.L. USER further agrees not to sell, lend, or otherwise dispose of the copies to any church, school, entity, or person other than those persons in the service of USER (agents) necessary to permit USER to carry out the uses licensed herein. This is not a license for publishers, businesses, or not-for-profit organizations who wish to sell products including F.E.L. copyrighted music and/or texts, even at nominal charges.

15. SONGS MAY NOT BE RECORDED OR TAPED. USER agrees not to record, tape, or use as soundtracks for film-strips or motion pictures, or sound reproduce in any manner the music and/or texts licensed herein. Separate charges and licenses are required.

The district court determined that copies produced under the ACL could only be used in not-for-profit performances and, therefore, the ACL extended F.E.L.'s copyrights over exempt performances. In reaching this conclusion, the court found clause 4 (which purportedly grants the user the right to perform the music at not-for-profit services), clause 8 (which requires copies to be destroyed after the expiration of the license), and clauses 5, 14, and 15 (which limit the use of the copies to church property and religious services with a few exceptions) offensive to the copyright laws. Although we agree with the trial judge that the ACL limits the use of F.E.L. songs to not-for-profit performances, we disagree on the legal consequences of this fact.

The right of churches to perform a musical work at a not-for-profit service only includes the right to perform the work from memory or from legitimate copies of the work. The ACL in no way affects or impairs this right. To the contrary, it enhances this right by allowing churches another method of publishing a work, *i.e.*, the privilege of producing their own copies for use in custom-made hymnals. Although the ACL licenses the use of copies at not-for-profit services, it does not license the performance itself. F.E.L. has every right to exact a fee for the distribution (publication) of its works. If a music publisher were not allowed to protect his copyrights at the point of distribution, he might not be able to protect them at all.

The right of an author in his intellectual product resembles any other personal property right. It may be sold outright in its entirety or a limited interest may be assigned. The various rights which compose a copyright may be split up and sold to different entities. Sales may be absolute or conditional and they may be with or without qualifications and restrictions. The only limitations on these extensive rights are those encompassed in the copyright laws or other laws of the United States, *e.g.*, antitrust laws, *see* B, *infra*.

Since a copyright holder has the right to protect anyone from copying his music, he assuredly can limit the right to copy or distribute music to one-year renewable periods. Further, the Copyright Act does not limit a copyright owner's ability to restrict the use of copies to a specific location or for a specific purpose.

The Bishop argues that the ACL exacts a legitimate fee in the first year for copying; in subsequent years, the license must be renewed or the copies must be destroyed, and the copies having already been made, the subsequent annual fees can only be for the right to perform.

The argument fails to recognize that the ACL grants not merely the right to copy, but the right to continue to use the copies by distributing (publishing) the copies to the congregation during church services. If F.E.L. sold

copies outright to the churches, it could not exact a fee in subsequent years nor exercise any control over the copies such as requiring copies to be destroyed.[7] But the ACL is not an outright sale of copies; it is a one-year renewable license, and its restrictions are well within the rights afforded a copyright owner by the Copyright Act of 1909. Thus clause 8 of the ACL does not render the license illegal.

Neither does a reading of clause 4 change our conclusion that the ACL licenses copying and publishing. If a contract grants a right already given by statute, no harm is done unless a fee is exacted. Clause 1 of the ACL clearly states that the consideration of $100 is for the right to make copies in any form. Clause 4 serves the purpose of informing the user that copies can only be used at not-for-profit services at a specific location.[8]

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[7] *See* 17 U.S.C. § 27; *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847 (2d Cir. 1963).

[8] F.E.L. contends that section 104 of the 1909 Copyright Act does not exempt performances by church congregations and there is some doubt as to whether these performances are indeed exempt under the Act. Thus, clause 4 of the ACL was inserted to inform parishes that they did have the right to perform music at masses. Section 104 provides in part:

> That nothing in this title shall be so construed as to prevent the performance of religious or secular works such as oratories, cantatas, masses, or octavo choruses by public schools, church choirs, or vocal societies, rented, borrowed, or obtained from some public library, public school, church choir, school choir, or vocal society, provided the performance is given for charitable or educational purposes and not for profit.

Despite the fact that church congregations are not exempted by section 104, not-for-profit performances at masses are clearly exempt under section 1(e). This does not render section 104 superfluous. This section probably refers to those situations where, for example, a church choir charges a fee for a performance and donates the proceeds to a charitable cause. Any contention that performances by congregations might not be exempted does not stand up in the face of this analysis. Regardless, we do not believe that F.E.L. needs any excuse for clause 4 because no fee was enacted by the ACL for the right to perform

Though the clause could have been drafted more carefully to reflect the fact that the right of not-for-profit performances is given by law, we still do not believe that the ACL, read as a whole, exacts a fee for exempt performances.[9]

B.

Is the ACL illegal under the Sherman Act?

In deciding that the ACL was a per se violation of the Sherman Act, the district court branded the ACL as a "tying contract": In order to get F.E.L.'s most popular songs, a church must buy inferior songs as well. The district court analogized this case to the facts of *United States v. Paramount Pictures*, 334 U.S. 131 (1948). In *Paramount*, movie theatres were forced to accept li-

[9] Clause 6 of the ACL requires users to include composer and music copyright acknowledgments even where the words alone are copied. Conceivably, this could result in a situation where a copyright notice for the music is printed and the words are in the public domain (some of F.E.L.'s songs contain words which are in the public domain). The district court believed that this was further evidence of F.E.L.'s attempt to license not-for-profit performances. We have already determined that the ACL does not license exempt performances and this clause does not persuade us otherwise. However, it is copyright misuse to exact a fee for the use of a musical work which is already in the public domain. *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661 (1944). The question in this case is whether F.E.L. has extended its copyright beyond the strict boundaries of the conferring statute. *Id.* at 665. The ACL charges a flat fee regardless of what is actually copied; there is no evidence that F.E.L. exacted a fee for words in the public domain. While F.E.L. could not legally compel parishes to put a copyright for musical notes on words in the public domain, this is not a sufficient basis for a finding of copyright misuse. Even if this were misuse, it would not require dismissal of the copyright claim in the instant case in light of the Bishop's infringements of F.E.L.'s copyrights. Dismissal of a copyright claim for misuse is an equitable defense which requires a balancing of equities. We think that in this case, the scales are tipped in F.E.L.'s favor.

censes for inferior films (tied product) in order to obtain licenses for popular films (tying product). The Supreme Court held that this form of conditional marketing was illegal per se under the Sherman Act. In the instant case, the ACL can license one song but the licensee must pay for the right to copy all 1,400 songs regardless of how many are actually copies. Despite this, we do not believe that the ACL is a tying contract; rather, we think that the ACL is more appropriately analyzed as a blanket license under the precedent established in *Broadcast Music, Inc. v. Columbia Broadcast System, Inc.*, 441 U.S. 1 (1979). In *Broadcast Music*, the Supreme Court scrutinized a license so similar to the ACL we fail to see how the instant case can be distinguished.

The ACL is a blanket license; for a fixed fee, it gives the licensee the right to copy any or all of F.E.L.'s songs, in any quantity, for a one-year period. *Broadcast Music* involved two blanket licenses for musical performance rights; for two separate fees, a television network was granted the right to perform any or all of the compositions in the repertory of two copyright clearing houses, for a one-year period. The two clearing houses between them held virtually every domestic copyrighted composition in their repertories. In a per se analysis, the legality of a blanket license depends on whether the effects of the license "almost always tend to restrict competition and decrease output . . . or instead . . . render markets more . . . competitive.[10] We have examined the ACL, its history, and the market it operates in. This examination leads us to the conclusion that the ACL has many pro-competitive, redeeming features which prevent us from presuming it illegal without further inquiry. *Northern Pac. RR v. United States*, 356 U.S. 1, 5 (1958).

These redeeming features are similar to those identified by the Supreme Court in *Broadcast Music*. The ACL is a reasonable and flexible tool for dealing with

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[10] *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc., supra*, 441 U.S. at 20.

the unique problems associated with the Roman Catholic liturgical music market.[11] It gives copyright holders protection and compensation and it allows individual parishes to produce custom-made hymnals at a reasonable cost. "[W]e would not expect that any market arrangements reasonably necessary to effectuate the [copy]-rights that are granted would be deemed a per se violation of the Sherman Act."[12] The ACL was not developed in a vacuum; it grew out of a history of copyright infringements and was designed to protect musical copyrights in a market where infringement is not easy to detect and harder to prevent.

Moreover, the ACL is not simply a protective device. Much like the blanket licenses in *Broadcast Music*, the ACL affords efficiencies. Individual sales transactions would be more expensive and would require individual monitoring; the ACL obviates the need for oversight of each individual customer. A blanket license is a "necessary consequence of the integration necessary to achieve these efficiencies, and a necessary consequence of an aggregate license is that its price must be established."[13]

Broadcast Music also supports our conclusion that the ACL is not a tying contract. The ACL is not a combination of individual song licenses; it is a unique product

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[11] The Sherman Act has always been discriminatingly applied in the light of economic realities. *Broadcast Music*, 441 U.S. at 14, *citing* Amicus Curiae on Petition for Certiorari in *K-91, Inc. v. Gershwin*, O.T. 1967, No. 147, p. 10. A musical copyright is worthless unless an owner has a means of enforcing the legal rights guaranteed by the Act. One means of protecting these rights is a license such as the ACL. The ACL takes into account the great number of churches across the land, the sheer volume of copyrighted compositions, the impracticability of negotiating individual licenses and the ephemeral nature of a publication by a church (*i.e.*, distribution of songs to the congregation). The ACL also sufficiently provides for the needs and desires of churches to produce custom-made hymnals.

[12] *Broadcast Music, Inc., supra*, 441 U.S. at 19.

[13] *Id.* at 21.

"composed of the individual compositions plus the aggregating service."[14] Here, "the whole is truly greater than the sum of its parts . . . ." *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 U.S. at 21-22. "[The ACL] allows the licensee immediate use of covered compositions without the delay of prior individual negotiations and great flexibility in the choice of musical material." *Id.* Because the ACL is a singular commodity—musical compositions—there can be no tied or tying products.

The district court reached the opposite conclusion but at no point in the record are the tying and tied products identified. The district court refers to twenty-five or thirty popular songs which are the most desired and concludes that a purchaser must buy all 1,400 songs included on the Master Title Index in order to obtain the popular songs. Establishing the existence of a tying contract requires more than a bald assertion that some songs are more popular than others. In any event, given the substantial similarity between this case and *Broadcast Music*, there can be little doubt that the ACL is not a per se violation of the Sherman Act.[15] The ACL

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[14] The ACL may be compared to a songbook or hymnal where all the songs are sold together even though some are more popular than others. A publisher selling a hymnal is not guilty of violating the antitrust laws because he does not offer for sale each song separately. A contrary holding would not only be uneconomical and inconvenient but would reduce the availability of copyrighted works.

[15] Though not crucial to the holding in *Broadcast Music*, the Supreme Court did note that there were no "legal, practical or conspiratorial impediments to . . . obtaining individual licenses." 441 U.S. at 24. The licensor held non-exclusive rights in the copyrighted songs and nothing prevented a television network from dealing directly with the copyright owners. In the instant case, the district court concluded that because F.E.L. owned all the copyrights to its 1,400 song inventory (unlike *Broadcast Music*), there was no alternative to the ACL which allowed churches to produce custom-made hymnals and that this was a per se violation of the Sherman Act. We do not agree with this reasoning. Even if *Broadcast*

(Footnote continued on following page)

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demands a more discriminating examination under the rule of reason.

Although the district court did not evaluate the ACL under the rule of reason, we think this issue is ripe for review. Both parties have urged that this case is appropriate for summary judgment. We agree. Whether the alternatives to F.E.L.'s ACL satisfy the antitrust laws has become purely a legal determination. The contractual obligations, prices, and other important characteristics of these alternatives is fully disclosed by the record. Since we are convinced that a trial on this issue would add nothing significant to the record, we see no reason to remand the issue for reconsideration.

Under the rule of reason, an agreement is an unreasonable restraint of trade if its anti-competitive effects outweigh its pro-competitive effects. *National Society of Professional Engineers v. United States*, 435 U.S. 679 (1978). In our case, the balancing of pro- and anti-competitive effects need not be undertaken because we find that the ACL has no anti-competitive effect. In *Broadcast Music, on remand*, 620 F.2d 930 (2d Cir. 1980), the Second Circuit determined that in a blanket license, such as the ACL, there is no price competition between the separate musical compositions included in the ACL.

> The absence of price competition among songs, however, does not mean that the blanket license is a restraint upon any potential competition. For price competition to exist there must be at least one buyer interested in purchasing a product from two or more sellers.
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[15] *continued*
Music mandated alternatives, the record in this case discloses available alternatives to the ACL which allow the purchase or copying of individual songs. These alternatives do not allow parishes to produce custom-made hymnals, but this does not render the ACL illegal per se. If the district court's conclusions are accepted, this would make the mere offering of a blanket license a per se violation of the Sherman Act and this is contrary to the result reached in *Broadcast Music*.

> If the opportunity to purchase performing rights to to individual songs is fully available, then it is customer preference for the blanket license, and not the license itself, that causes the lack of price competition among songs. Of course, even customer preference cannot save some practices from illegality under the antitrust law. If competing sellers fix the prices of their products, they violate § 1 no matter how much a buyer may prefer accepting their fixed price to negotiating with each for a lower price. But a practice that is not a per se violation, and this blanket license has authoritatively been found not to be such, does not restrain trade when the complaining customer elects to use it in preference to realistically available marketing alternatives.

Id. at 935. In other words, the ACL does not restrain trade or have anti-competitive effects if an alternative opportunity to acquire rights to individual songs is fully available. *Id.* at 936. Having examined the various methods of acquiring individual F.E.L. songs, we conclude that these methods are realistically available marketing alternatives.

If a church desires to make copies of a single F.E.L. song for use at a worship service, it can do so under the one-time use license. If permanent copies are desired, a church can purchase songbooks, songcards, or sheet music. The Bishop maintains correctly that the ACL is the only license offered by F.E.L. which allows parishes to include F.E.L. songs in custom-made hymnals. This fact alone does not make F.E.L.'s ACL unreasonable. A copyright owner is not required to market its copyrights in a form most convenient to its customers. Neither the copyright laws nor the antitrust laws guarantee churches the right to produce custom-made hymnals; a copyright owner can sell sheet music only if he so desires. We cannot overlook F.E.L.'s alternative marketing practices simply because they do not allow custom-made hymnals, and neither the expense nor the inconvenience of these alternatives makes them unreasonable. *See Broadcast Music*, 620 F.2d at 937. Although inconvenience or expense may in some cases be barriers to the availabil-

ity of alternatives, in this case we believe these factors are not so obstructive that they constitute legal impediments to F.E.L.'s alternatives.

The Bishop contends that we cannot consider F.E.L.'s songbooks or sheet music as alternatives to the ACL because they are not copy licenses. In other words, the relevant market which we must examine is the copy licensing market, not the entire music publishing market. Though we are not convinced that the Bishop's argument is correct,[16] the one-time use license standing on its own is an acceptable alternative. It is a copy license which allows individual songs to be copied and used at not-for-profit services; and its price is quite reasonable.

The availability of alternative means of acquiring individual F.E.L. songs removes the potential for coercion (in the form of price fixing) from the ACL. The ACL has no anti-competitive effects. Therefore, there is no question of fact, yet unresolved, as to whether the pro-competitive effects are outweighed by the anti-competitive effects. We conclude as a matter of law that the ACL is not a violation of the antitrust laws.[17]

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[16] If we limit the relevant market to copy licenses or perhaps even copy licenses which allow for permanent custom-made hymnals, we could conceivably limit the availability of liturgical music. By eliminating a publisher's alternative-marketing devices from consideration under the antitrust laws, we force the license at issue to stand alone as a competitive or anti-competitive agreement. Given this result, a publisher may choose to withdraw a copy license altogether, rather than increase the number of alternative copy licenses. This result is not mandated by the Sherman Act and is certainly not the best way to "promote the progress of the useful art." United States Constitution, Art. I § 8.

[17] It is conceivable that the ACL would not violate the Sherman Act even without a realistic alternative marketing mechanism. *See Broadcast Music, Inc. v. Moor-Law, Inc.*, 50 U.S.L.W. 2370 (Nov. 24, 1981) (No. 1043 ATRR A-13).

II

Count 23 of F.E.L.'s complaint alleged a violation of section 34(a) of the Lanham Act.[18] F.E.L. claimed that the "homemade" hymnals collected from the Bishop's parishes contained F.E.L. songs which did not have a copyright notice, any acknowledgment of author or composer, the name of the copyright owner, or any indication of reprint permission. F.E.L. contends that by applying the name of the parish and omitting F.E.L.'s name from the hymnals, the Bishop has falsely identified himself or his parishes as the source or owner of the songs. Section 43(a) of the Lanham Act provides that:

> Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation or origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which the locality is situated, or by any person who believes that he is or is likely to be damaged by the use of such false description or representation.

The district court dismissed Count 23, stating that the Bishop had not used any false designation of origin and, in any event, the hymnals had not entered into commerce as required by the statute. The ultimate test of a claim under the Lanham Act is whether there is a likelihood of confusion, deception, or mistake on the part of

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[18] 15 U.S.C. § 1125(a).

No. 81-1333

the consuming public.[19] Whether in fact the consumers of the "homemade" hymnals are confused as to the origin of the songs contained therein is a question of fact which has not been resolved in the instant case. Section 43(a) of the Lanham Act is a remedial statute that must be broadly construed. By printing its own name on the hymnals and excluding F.E.L.'s, the parishes have used a false designation of origin if the users of the hymnals are confused as to the origin of the songs. A resolution of this issue is not appropriate for summary judgment on the basis of the record as presented. Further, the allegations set out by F.E.L. in Count 23 do satisfy the jurisdictional element of interstate commerce in section 1125. Whether or not the "homemade" hymnals leave the State of Illinois is not important if they have a substantial effect on interstate commerce. *Maier Brewing Co. v. Fleischman Distilling Corp.*, 390 F.2d 117, 120 (9th Cir. 1968). A false designation of origin on custom-made hymnals could have an impact on interstate sales of legitimate copies of copyrighted music. It was error for the district court to dismiss count 23 of F.E.L.'s complaint.

III

Counts 22 and 24 of F.E.L.'s complaint invoked the pendent jurisdiction of the district court for their adjudication. When the other F.E.L. counts were dismissed, the district court in its discretion refused to exercise jurisdiction over the State claims. We have determined that the granting of the Bishop's motion for summary judgment on the copyright claims was incorrect as was the dismissal of Count 23. The issue of pend-

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[19] *See James Burrough, Ltd. v. Sign of the Beefeater, Inc.*, 540 F.2d 266, 274 (7th Cir. 1976) (trademark infringement under the Lanham Act is found when evidence indicates confusion on the part of the public); *Boston Professional Hockey Assoc., Inc. v. Dallas Cap & Emblem Mfg. Co.*, 510 F.2d 1004, 1010 (5th Cir.), *cert. denied*, 423 U.S. 868 (1975) (generally, the same facts which support an action for trademark infringement support an action for unfair competition).

ent jurisdiction is now appropriate for reconsideration by the district court.

IV

The order of the district court is reversed and this case is remanded to the district court for proceedings consistent with this opinion.[20] Circuit Rule 18 shall apply.

A true Copy:

Teste:

Clerk of the United States Court of Appeals for the Seventh Circuit

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[20] F.E.L. filed a motion to supplement the record in this court with a document entitled "FDLC Update of Music Publishers' Reprint Permissions Policies" (the "FDLC Update"). The district court denied this motion on April 17, 1981. On May 29 this court granted the motion to supplement. The Bishop did not receive notice of F.E.L.'s motion to supplement the record and, upon receipt of this court's order, moved to vacate it and deny the motion on June 4, 1981. On June 16 this court ordered that the motion to vacate be referred to the panel to be taken with the case at the time of oral argument.

The FDLC Update was not before the district court when it ruled on defendant's motion for summary judgment. Rule 10(e), Federal Rules of Appellate Procedure, "does not give this court authority to admit on appeal any document which was not made a part of the record in the District Court." *Borden, Inc. v. FTC*, 495 F.2d 785, 788 (7th Cir. 1974). The Bishop's "Motion to Vacate Order Granting [F.E.L.'s] Motion to Supplement the Record on Appeal" is granted.

Private Laws of Illinois, 22nd General Assembly, at 78 (1861)

In force February 20, 1861.

AN ACT to amend an act entitled, "An act authorizing certain persons holding property in trust for the use of the Catholic church and societies thereof, in the state of Illinois, to convey the same," approved February 24th, 1845; also, to incorporate the Catholic Bishop of Chicago, and to confirm conveyances, made since the 24th February, 1845, heretofore, by the Catholic Bishop of Chicago.

SECTION 1. *Be it enacted by the People of the State of Illinois, represented in the General Assembly,* That the present Catholic Bishop of Chicago, and his successors in office, be and are hereby created a body politic, and a corporation sole, under the name and style of "The Catholic Bishop of Chicago;" and by that name said bishop, and his successors in office, shall be known, and shall, hereafter, have succession; and shall sue and be sued, plead and be impleaded, defend and be defended, in all courts and places whatsoever. "The Catholic Bishop of Chicago" shall have a seal of office and may change and alter the same at pleasure; and may acquire, hold and convey property, real, personal and mixed, of any kind and nature whatsoever; and shall have power to borrow money, and mortgage and incumber said property, so to be held, as aforesaid, or any portion thereof, as security for the money borrowed under the authority of this act.

Corporate name and powers.

Record of appointment.

§ 2. The Catholic Bishop of Chicago, for the time being, and any lawfully appointed administrator, filling the office of the Catholic Bishop of Chicago, shall, within six months after his appointment to the said office of Catholic Bishop of Chicago, or administrator, as aforesaid, file for record in the recorder's office of the county of Cook, in the state of Illinois, a statement of the fact, manner and time of such appointment, under his hand and said corporate seal, and verified by his affidavit subscribed thereto; which affidavit shall be sworn before any judge of any court of record in said county of Cook. And the present Catholic Bishop of Chicago shall comply with the last mentioned enactment within three months after this act becomes law.

Title to property.

§ 3. *And be it further enacted,* That the title to all the property, real, personal or mixed, intended to be vested in the Catholic Bishop of Chicago, and his successors, by said act to which this act is in part an amendment, is hereby vested in and confirmed to the "Catholic Bishop of Chicago," and his successors, absolutely, subject however to the gifts, grants, conveyances, deeds of trust, mortgages or other lawful assurance, heretofore made by the said Right Reverend William Quarter, or his said successors.

§ 4. *And be it further enacted,* That all gifts, grants, deeds and conveyances, and also all devises and bequests, heretofore made to any individual holding the office of Catholic Bishop of Chicago, or administrator of the diocese of Chicago, in which the addition of "Bishop of Chicago," or "Roman Catholic Bishop of Chicago," or "Administrator of the Diocese of Chicago," may have been made to the name of the grantee, shall be construed as conveying, giving, granting, devising or bequeathing the property in such instruments mentioned to such individual, as "Catholic Bishop of Chicago," and that the titles thereby passing, respectively, shall be and the same are hereby vested in the corporation created by this act; and that all gifts, grants, deeds, conveyances, and contracts, deeds of trust, mortgages, and other incumbrances, heretofore made by any individual holding the office of Catholic Bishop of Chicago, or administrator of the diocese of Chicago, to which the name of such individual or the christian name of such individual, shall be signed, with the addition of "Bishop of Chicago," or "Catholic Bishop of Chicago," or "Roman Catholic Bishop of Chicago," or "Administrator of the Diocese of Chicago," shall be held and construed as having been made and granted by such individual, as "Catholic Bishop of Chicago," and are hereby confirmed; and all rights, claims and liabilities inuring to and chargeable against such individual, as aforesaid, under any of the assurances aforesaid, shall inure to and be chargeable against the corporation created by this act.

Conveyances heretofore made

§5. This act shall be a public act, and shall be in force from and after the passage of it; and all laws and parts of laws, in conflict with this act, are hereby repealed; and the legislature hereby reserves the right to amend or repeal this act without divesting any right to property acquired under it at the time of such amendment or repeal.

§ 6. The general assembly of this state shall have full power and authority to provide, by law, any limitation as to amount of property, real or personal, capable of being held by the corporation hereby created.

APPROVED February 20, 1861.

No. 84-1915

Supreme Court, U.S.
FILED
JUL 16 1985
ALEXANDER L. STEVAS
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

F.E.L. PUBLICATIONS, LTD.,

Petitioner,

v.

CATHOLIC BISHOP OF CHICAGO,

Respondent.

BRIEF OF RESPONDENT CATHOLIC BISHOP OF CHICAGO IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Did the federal courts below properly interpret the damage provisions of the now repealed 1909 Copyright Act, 17 U.S.C. §§ 1-216 (1976), in denying Petitioner's demand to substitute $1.5 million statutory damages for the jury's award of $190,400, which was the amount Petitioner requested from the jury?

2. Did the district court properly exercise its judicial discretion under the now repealed 1909 Copyright Act in denying Petitioner's request for $1.5 million in statutory damages in lieu of the jury's award of $190,400 (requested by the Petitioner) in actual damages?

3. Did the court of appeals properly interpret Illinois law in holding that the parishes within the Archdiocese are not separate and independent legal entities, but are subsumed under the Catholic Bishop?

IDENTIFICATION OF PARTIES PURSUANT TO SUPREME COURT RULES 28.1 AND 34.2

The caption of the case in this Court contains the names of all parties. Petitioner Catholic Bishop of Chicago is a corporation sole organized pursuant to a special act of the Illinois legislature. It does not have the traditional corporate affiliates and subsidiaries but it operates approximately 446 Catholic parishes, 4 Catholic seminaries, 374 Catholic elementary and secondary schools, 5 Catholic homes for the aged, and other Catholic institutions and programs.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

F.E.L. PUBLICATIONS, LTD.,

Petitioner,

v.

CATHOLIC BISHOP OF CHICAGO,

Respondent.

BRIEF OF RESPONDENT CATHOLIC BISHOP OF CHICAGO IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

SUPPLEMENTAL STATEMENT OF THE CASE

The facts are stated in the court of appeals decision. However, because Petitioner's statement of the case omits or distorts some of the key facts, we restate:

The Respondent Catholic Bishop of Chicago is the legal entity of the Roman Catholic Archdiocese of Chicago. The Catholic Bishop is a corporation sole organized under a special act of the Illinois legislature. Private Laws of Illinois, 22nd General Assembly, at 78 (1861). The Catholic Bishop owns all property within its 447 parishes in the Archdiocese. *Id.* (App. 9a.)[1].

[1] Appendix (App.) refers to the Appendix to Petitioner's Petition for a Writ of Certiorari.

The Petitioner, F.E.L. Publications, Ltd., is a publisher of religious music. Formed in the early 1960s, F.E.L. published collections of English liturgical hymns in a predominantly folk music repertoire. F.E.L.'s President, Dennis Fitzpatrick, authored some of the songs while others were obtained from various composers through assignments to F.E.L. of exclusive rights to songs in exchange for royalties on the sale of F.E.L. materials. (App. 2a.)

The Copyright Suit

In September of 1976, F.E.L. Publications, Ltd. sued the Catholic Bishop of Chicago for copyright infringement under the 1909 Copyright Act, 17 U.S.C. §§ 1-216 (1976). (App. 2a.) F.E.L. sought damages for the unauthorized copying of hymns by 238 of the 447 parishes in the Archdiocese of Chicago. The Catholic Bishop himself neither participated in nor was aware of any copying of F.E.L. materials in his parishes. F.E.L. sought damages from the Bishop because he is the civil and canon law head of the Roman Catholic Archdiocese of Chicago and is accountable as the principal or "owner" for the acts of all his parishes. The parishes have no independent legal identity. (App. 9a.)

At trial, F.E.L. asked the jury for the precise sum of $190,400 for its copyright damages; F.E.L. computed its damages by multiplying F.E.L.'s $100 license fee per parish over a three year period plus a $500 penalty times the 238 infringing parishes. The jury awarded F.E.L. the exact amount requested, $190,400. (App. 3a.) The Bishop promptly paid the judgment. In a post-trial motion, F.E.L. asked the district court to withdraw the jury's $190,400 award it had requested and to substitute therefor $1.5 million in statutory damages. (App. 3a-4a.) The trial court ruled that statutory damages were discretionary and denied the request, (App. 4a), holding that the $190,400 was adequate compensation. (App. 13a.) F.E.L. then appealed the court's refusal to award F.E.L. more than the $190,400. The United States Court of Appeals for the Seventh Circuit affirmed the district court's decision as not an abuse of the district court's discretion. (App. 8a.)

The Tortious Interference Suit

On the day the lawsuit was filed, F.E.L. held a press conference and accused the Catholic Bishop of Chicago of liturgical piracy and "Watergate worship." F.E.L. also sent a letter to every Catholic Bishop in the United States informing them of the suit and threatening additional suits if the Bishops failed to come to terms with F.E.L. for their copying.

Shortly after filing its copyright suit, F.E.L. sought an injunction prohibiting the destruction and continued use of any unauthorized copies of F.E.L. hymns by parishes in the Archdiocese of Chicago. (App. 3a.) In order to avoid any additional liability for the acts of his parishes, the Catholic Bishop agreed to collect all of F.E.L.'s publications in the Archdiocese, as requested by F.E.L. The Bishop also by two letters directed its parishes not to use or purchase F.E.L. materials until the lawsuit had been resolved. (App. 3a.)

The Catholic Bishop of Chicago received numerous inquiries about the lawsuit from its fellow Catholic Bishops outside the Archdiocese of Chicago. The Bishops had been informed of the dispute by Petitioner's press conference and the letters Petitioner sent to each Bishop. In response to those inquiries, the Catholic Bishop sent all his fellow Bishops copies of the two letters sent to Chicago parishes directing the collection and non-use of F.E.L. materials held in the parishes and owned by the Bishop. (App. 3a.)

Six months later, F.E.L. amended its complaint to seek additional compensatory and punitive damages, alleging that the Catholic Bishop of Chicago had tortiously interfered with F.E.L.'s business relationship with the Chicago Catholic parishes because the Bishop collected F.E.L. materials and prohibited their use in its own parishes during this litigation. (App. 3a.) In contrast to F.E.L.'s copyright claim, that sought to impose vicarious liability on the Catholic Bishop for the copying by its parishes as the Bishop's agents, F.E.L.'s tortious interference count treated the Bishop and its parishes as separate entities; the parishes for F.E.L.'s tortious interference count were al-

leged to be independent third parties that allegedly had the legal capacity to maintain a separate business relationship with F.E.L. (App. 9a.) F.E.L. also claimed that the Catholic Bishop interfered with F.E.L.'s business relationships nationwide by sending copies of its two letters to Chicago parishes to answer the inquiries of its fellow Bishops regarding this lawsuit. (App. 3a.)

The evidence presented at trial demonstrated that the parishes in the Archdiocese are not independent legal entities but are part of the corporation sole owned and controlled by the Catholic Bishop. Moreover, the plaintiff offered no evidence of the loss of a single contract or relationship with any parish outside of the Archdiocese of Chicago due to the Catholic Bishop's conduct. Nevertheless, the district court submitted both of these claims to the jury which then awarded the plaintiff $2 million in compensatory damages and $1 million in punitive damages for tortious interference. (App. 2a, 9a.)

The Catholic Bishop appealed the $3 million tortious interference judgment on the ground that the Catholic Bishop could not, as a matter of Illinois law, tortiously interfere with its own parishes, and that there was no evidence to support a finding that the Catholic Bishop of Chicago tortiously interfered with F.E.L.'s business relationships nationwide. The court of appeals vacated the $3 million award because the jury reached its verdict after considering the Catholic Bishop's actions with its own parishes contrary to Illinois law. (App. 9a.) The court of appeals held that under Illinois law the parishes were subsumed within the Catholic Bishop. (App. 9a.) It remanded the case, however, for further proceedings with respect to F.E.L.'s claim that the Catholic Bishop of Chicago tortiously interfered with F.E.L.'s business nationwide. (App. 10a.)

REASONS TO DENY THE WRIT

The petition for certiorari should be denied because the only federal question presented concerns the construction of the "in lieu of" statutory damages provision of the 1909 Copyright

Act, 17 U.S.C. § 101(b) (1976), a statute that is no longer the law. Moreover, the federal question presented is solely whether the district court, which heard all of the witnesses and evidence, abused its discretion in denying statutory damages in lieu of actual damages under the 1909 Copyright Act. The Seventh Circuit without dissent determined that there was no abuse of the trial court's discretion, especially because all the trial court did was calculate petitioner "F.E.L.'s damages according to the method F.E.L. suggested." (App. 7a.)

This Court should not use its precious resources to construe a statute that has been repealed and superseded by the 1976 Copyright Act. 17 U.S.C. § 504 (1982). Not only was the question rightly decided by both lower courts in accordance with this Court's 1909 Copyright Act decision in *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228 (1952), but the question will never arise again. There is no need to provide guidance to the lower federal courts as to how to exercise discretion under the 1909 Copyright Act, and this Court has no reason to review the Seventh Circuit's correct interpretation of the Illinois law of tortious interference.

Accordingly, there being no important federal question and no conflict between the decisions of the circuits or of this Court, the writ should be denied.

I.

THE FEDERAL COURTS BELOW PROPERLY INTERPRETED THE DAMAGE PROVISIONS OF THE 1909 COPYRIGHT ACT IN DENYING PETITIONER'S REQUEST FOR STATUTORY DAMAGES.

A. The Construction Of A Repealed Statute Does Not Present An Important Federal Question.

F.E.L.'s claim arose under the 1909 Copyright Act which has been superseded by the 1976 Copyright Act. The damage

provisions of the 1909 Copyright Act required the plaintiff to prove damages and lost profits, and provided that the trial judge may award "*in lieu of* actual damages and profits, . . . such [statutory] damages the court may, in its *discretion*, allow." 17 U.S.C. § 101(b) (1976) (emphasis added). Congress deleted the "in lieu of" provision—the language that forms the basis of Petitioner's federal question—in the 1976 Copyright Act. The 1976 Copyright Act, like the 1909 Copyright Act, allows a copyright plaintiff to collect actual damages or lost profits, while the new act, in marked contrast to the old, now provides that a plaintiff may "*elect at any time before a final judgment* is rendered, to recover . . . an award of statutory damages." 17 U.S.C. §§ 504(b), (c) (1982) (emphasis added).

Thus, the issue of whether a court had reasons to exercise its discretion to award statutory damages and whether there was an abuse of that discretion will not arise again. Under the new act whether statutory damages should be awarded in the first instance is now a matter exclusively of the plaintiff's election. The review and interpretation of a court's discretion under a superseded 1909 statute does not involve a novel or important federal question that warrants this Court's review.

B. The Court Of Appeals Correctly Held That The District Court Did Not Abuse Its Discretion Under *Woolworth* In Denying Statutory Damages.

In *F. W. Woolworth Co. v. Contemporary Arts, Inc.*, 344 U.S. 228, 233 (1952), this Court held that statutory damages under the 1909 Copyright Act are not available where, as here, both actual damages and an infringer's wrongful profits can be determined. *See* 4 Nimmer on Copyright, Appendix 16 at 16-8. Indeed, under the 1909 Copyright Act statutory damages were traditionally awarded solely in instances where damages were difficult to calculate, *Peter Pan Fabrics, Inc. v. Jobela Fabrics, Inc.*, 329 F.2d 194, 197 (2d Cir. 1964), and not as here where

the Petitioner tendered a formula for its damages that would fully compensate it and the Petitioner's formula was adopted in the award *en toto* as requested.

At trial, F.E.L. established the value of the right to copy and use its works through its Annual Copyright License ("ACL") of $100 per parish per year. By this measure, F.E.L.'s actual damages totaled no more than $71,400 (238 parishes x $100 x 3 year statute of limitations period). F.E.L. presented this formula to the jury and then asked the jury to award another $500 per parish, the cost of F.E.L.'s Copying Release, which included a "penalty assessment" for any prior copying. "[P]rofits to the Catholic Bishop" were not at issue, (App. 6a), because there was no evidence that any parish within the Archdiocese ever *sold* (as contrasted to made and used) an infringing F.E.L. hymnal. *F.E.L. Publications, Ltd. v. Catholic Bishop of Chicago,* 506 F. Supp. 1127, 1131 n.2 (N.D. Ill. 1981). The jury's verdict of $190,400 thus represented the precise amount of actual damages requested of it by F.E.L. for copyright infringement.

F.E.L.'s post-trial claim that the trial court abused its discretion by refusing to award $1.5 million in statutory damages in lieu of the jury's award of $190,400 is disingenuous. It is in fact overreaching for F.E.L. to suggest in a post-trial motion that it is entitled to almost ten times the actual damages it requested, and then received, from the jury. The "in lieu of" provision of the 1909 Act expressly provides that statutory damages "shall not be regarded as a penalty." 17 U.S.C. § 101(b) (1976). As the Seventh Circuit succinctly stated, "[w]e fail to see how the trial judge abused his discretion by calculating F.E.L.'s damages according to the method F.E.L. suggested." (App. 7a.)

Furthermore, *Woolworth* instructs the trial court to consider the "circumstances of infringement" when presented with a motion for statutory damages. *Woolworth,* 344 U.S. at 232.

One such "circumstance" is the Petitioner's ten year delay in filing his lawsuit. (App. 7a.) F.E.L. could have mitigated its damages substantially by filing suit earlier. The appeals court properly concluded the trial court's consideration of F.E.L.'s delay was another valid consideration in rejecting F.E.L.'s request for $1.5 million in statutory damages. (App. 7a.)

Nor does the trial court's gratuitous comment about F.E.L.'s $1 million punitive damage award for tortious interference alter the fact that F.E.L. "received the award of [copyright] damages in the amount it claimed and as supported by the evidence." (App. 8a.) F.E.L. received exactly what it requested from the jury, and, as the Seventh Circuit held, the trial court's refusal to award statutory damages was a judicious use of its discretion.

Finally, F.E.L. is in total error in making the claim that the courts below created an "ecclesiastical use" exception to the 1909 Copyright Act to bar F.E.L. from recovering the Bishop's profits. The Seventh Circuit did not hold that the religious use of F.E.L.'s music precluded F.E.L. from recovering profits. (Indeed, in an earlier appeal the Seventh Circuit, consistent with other courts of appeal, made it abundantly clear that the Bishop's ecclesiastical use was not a barrier to F.E.L.'s recovery. (App. 18a-19a; *Wihtol v. Crow,* 309 F.2d 777 (8th Cir. 1962).) The dispositive and undisputed fact is that the Bishop and the Chicago parishes never sold an infringing copy, and there were thus *no* infringer profits for F.E.L. to recover. The failure of the Bishop to sell any infringing materials, and not the religious nature of the Respondent, was the pivotal decisional fact.

II.

THE CATHOLIC BISHOP CANNOT, AS A MATTER OF ILLINOIS LAW, TORTIOUSLY INTERFERE WITH ITS OWN CONTRACTS.

F.E.L.'s tortious interference claim is purely a matter of a cause of action under Illinois law. The Seventh Circuit properly concluded that under Illinois law a party cannot be "liable in tort for interfering with its own contract." (App. 8a.) Applying Illinois law, the Seventh Circuit found the parishes are subsumed under the Archdiocese of Chicago, *Galich v. Catholic Bishop of Chicago,* 75 Ill. App. 3d 538, 394 N.E.2d 572, 575 (1st Dist. 1979), *cert. denied,* 455 U.S. 916 (1980), and that lack of an independent third party precluded F.E.L.'s action for tortious interference.[2] (App. 9a.)

There is no reason for this Court to become involved in a state law tortious interference issue and become entangled in the hierarchy and structure of the Catholic Church in Chicago. Therefore, the Petitioner's request for a writ of certiorari should be denied.

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[2] In an argument never raised in the courts below, Petitioner asks this Court to consider canon law to determine whether the parishes are independent civil law entities. But such a determination flies in the face of well-settled Illinois law concerning the non-independent status of Chicago parishes and conflicts with this Court's longstanding position of neutrality regarding internal church affairs. *See* Watson v. Jones, 80 U.S. (13 Wall) 679 (1872); Serbian Eastern Orthodox Diocese v. Milivojevich, 426 U.S. 696 (1976).

CONCLUSION

For the foregoing reasons, the Respondent respectfully requests that the Petition for a Writ of Certiorari be denied.

Respectfully submitted,

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